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# HEARINGS

ON THE

# ALDRICH BILL

## SENATE NO. 3023

STATEMENT OF

## MR. FINLEY ACKER

*Chairman Banking and Currency Committee, of the Trades League of Philadelphia, Pa.*

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

WEDNESDAY, APRIL 15, 1908

WASHINGTON
GOVERNMENT PRINTING OFFICE
1908

# CURRENCY LEGISLATION.

Committee on Banking and Currency,
House of Representatives,
*Wednesday, April 15, 1908.*

**STATEMENT OF MR. FINLEY ACKER, CHAIRMAN OF THE BANKING AND CURRENCY COMMITTEE OF THE TRADES LEAGUE OF PHILADELPHIA.**

Mr. Acker. Mr. Chairman and gentlemen of the committee, in representing the Trades League of Philadelphia, whose membership includes over 2,000 commercial, manufacturing, and financial firms and institutions, I shall not plead for legislation which would favor special interest, nor which would be detrimental to any interest.

On the contrary, I hold that financial legislation affects so vitally the prosperity of the entire country, and is so vital a part of the business machinery of the whole nation, that it should ensure not only the safest system in the world, but should also ensure equal benefit to all legitimate interests, including those of investments, banking, manufactures, commerce, agriculture, and wage-earners. And I believe that most men share this view—even though they honestly differ as to methods. I therefore feel free to frankly discuss the causes and conditions which led to the unanimous adoption of the resolutions which I have been authorized to submit for your consideration.

Last fall the manufacturing and commercial interests received a shock from which they have not yet recovered. And it may be some years before they fully recover. Because of the great era of prosperity with which this country had been favored, and which excited the admiration and envy of the world, transportation companies had planned for increased facilities, manufacturers had contracted for larger works, merchants were prepared to handle increased volumes of business, and labor was fully employed at high wages.

All these interest were forging rapidly ahead upon the assumption that the banking and currency system of this country was essentially sound and in keeping with the progressiveness of the times, when, with the suddenness of a lightning bolt from a clear sky, they made the alarming discovery that the foundation of our currency system was so faulty that it required only a few incidents in a single city to break down the entire national banking and currency system and, by the total or partial suspension of cash payments, to advertise "calamity," with its resulting destruction of confidence, in nearly every city and hamlet in the land.

I feel safe in saying that never before in the history of the world was there a parallel instance in which unprecedented prosperity and universal activity were penalized by such a catastrophe—a catastrophe which, because of its logical sequence of forced liquidations, of canceled contracts, of abandonment of extensions, and of

idleness of labor, has cost this country up to the present time billions and billions of dollars; and no one can accurately compute its contingent loss in the future.

I will not enter into details, for you are familiar with many of them. But at this point I wish to direct serious attention to a feature which thus far has not received the publicity which its importance warrants.

When the Canadian bridge suddenly collapsed, with its great loss of life and property, an investigation was promptly instituted to determine who was responsible for the faulty plans of construction which resulted in that great loss; and the same course of procedure follows every great calamity. It is eminently fitting that the question should be asked and fairly answered, "Who is responsible for the faulty currency structure which resulted in last fall's calamity?" The responsibility can not be justly charged to the manufacturing and commercial interests, for they were doing their full part in keeping pace with the progressive spirit of the age, and were leading the world in labor-saving inventions and twentieth century methods and devices. It seems to me that the primary responsibility for the great loss resulting from the operation of our faulty currency system logically and fairly rests upon Congress, because it alone has the power to determine the banking and currency system of the nation; and Congress not only neglected to protect its commerce with the currency safeguards which are enjoyed by foreign competitors, but it enforced the continuance of an antiquated currency system which at all times was fundamentally unsound and unscientific, and which Mr. Andrew Carnegie declares "is the worst system in the civilized world."

Let us look at this question from a strictly practical standpoint. Had Congress one year ago adopted a sound, scientific, and equitable system of currency the great national calamity of last fall, with its loss of billions of dollars, would not have occurred, even though gradual and orderly business retrenchment might have taken place at a later period, as has since been done in other countries.

In saying what I have I trust I will not be misunderstood as intending any disrepect for the highest legislative body of this great nation. Far from it. I fully appreciate the wide and honest diversity of opinion among the many Members of Congress upon important public questions, and the difficulty of harmonizing such differences, particularly in the absence of public pressure.

But I allude to this subject now in order that the responsibility for this national calamity will be placed where it rightly belongs, and that this committee will constantly bear in mind the staggering blow which was given to the prosperity of this nation because of the failure by Congress to correct our faulty currency system, and should you agree with my contention I trust that you will have the courage of your convictions to boldly call upon Congress to no longer shirk its duty by countenancing any ineffective or deceptive makeshift, but to assure the country at large that our present bond-secured currency system, which is the laughing stock of the world, will be supplanted by a sound, scientific, and equitable system at the earliest practicable moment.

The Aldrich bill which has been referred to your committee has been so thoroughly dissected by those who have preceded me that I will not burden you with a repetition of the same details, but will briefly treat a few of its main features from a practical standpoint.



Without intending any unkind reflection I can not help recalling in this connection Mr. Carnegie's declaration that a certain system was the "worst that any body of sane men could devise."

The peculiarity of this bill is that in practice it would work out exactly opposite to what the framer claimed, and to what the country demands. Its purpose is claimed to be a preventive of financial panics, but in practice it would prove a breeder of panics. This is a serious charge, but I expect to fully substantiate it. What causes a panic? Is it not fear upon the part of the depositor that he may lose his money? Fear upon the part of the bank that a run may be made upon its resources? Fear upon the part of the merchant or manufacturer that he may be unable to meet or renew his financial obligations? How would the Aldrich bill meet such contingencies? The superficial answer would be, by permitting $500,000,000 emergency currency to be issued upon approved collateral bonds owned by the banks. But if the national banks of the country invested $500,000,000 or $550,000,000 of their funds in such bonds, would not their loanable funds be depleted to exactly the same amount—and would not this depletion be the very cause of a financial stringency and possible panic just that much earlier?

I assume that it was the discovery of the above fallacy that led to the amendment that a percentage of the banks' legal reserve could be invested in such bonds. But does this change the situation? Suppose the bank held such bonds in its legal reserve and utilized them to secure emergency currency, would it not be required to immediately replace the value of those bonds with lawful money in order to maintain its legal reserve? And how many bankers would consider it profitable to furnish $100,000 of bonds to secure $90,000 of emergency currency at a tax rate of 6 per cent or 9 per cent when they would be obliged to first add $100,000 of lawful money to their reserves to take the place of the bonds?

More than this. The amendment which permits the investment of part of the legal reserve in bonds, also requires, outside of central reserve cities, that a larger reserve than at present be kept in the vaults of the banks.

As this requirement would reduce the amount of loanable funds of national banks, even where they did not invest in bonds, would not the bill thereby directly hasten, at least to the extent of the unloanable funds, a financial stringency and possible panic?

Before leaving the subject of panics permit me to ask another question: If $500,000,000 of additional currency were to be floated without requiring the addition of a single dollar in gold or lawful money to protect it, when the Treasury now holds but $150,000,000 in gold to protect more than a billion and a half of treasury notes, bank notes, and silver certificates, is it not at least possible that war or other circumstances might arise which would create a "currency panic" and a raid upon our comparatively small gold reserve, as was done in 1895?

Another practical point of view: Does not a reasonable and uniform rate of interest tend to develop legitimate enterprise by encouraging the employment of loanable capital? And should not the farmer, the cotton grower, and all other actual wealth producers receive the benefit of a reasonable interest rate, as is always assured in France? But what effect would the Aldrich bill have upon interest rates? With the loanable funds of the banks seriously curtailed and

with a tax upon additional currency of 6 per cent or 9 per cent, I will allow you to answer the question for yourself.

One more practical feature: It is claimed that the Aldrich bill would prevent the loaning of bank funds to any corporation in which a director of said bank was an officer or director. I need not discuss this. I am sure the framer of the bill never intended the above. I merely cite it as another instance to show that the Aldrich bill in practice would do just the opposite of what the framer claimed and the public demands. From a practical standpoint it would appear, in my humble judgment, that while the Aldrich bill contains many dangerous features it possesses but one that has any merit, and that is that national banks should pay interest upon public moneys of not less than 1 per cent, but this feature is too trifling a detail upon which to construct a financial measure.

You have listened to many arguments upon this bill. Have you yet heard one in its favor that would withstand rational criticism? You have received copies of resolutions adopted by commercial and financial organizations all over this country. Have you yet received one in its favor? In view of the above and in view of what can now be safely predicated of the practical operation of the measure, would it not be to the lasting discredit of its distinguished author and of the dominant party, which controls national legislation, if the Aldrich bill were enacted into law?

Has the bill a single redeeming feature except the trifling detail which I have mentioned? Is it capable of amendment whereby credit instead of discredit will redound to its title? I think it is, but only in one way, and that is to eliminate all after the second line and substitute the Fowler bill in its entirety. And this suggestion removes the discussion from an atmosphere of doubt, uncertainty, apprehension, and complexities into the clear light of scientific reasoning, based upon universal business principles and verified by long experience in other nations. I wish to say at this juncture that this committee may justly be proud that it has for its chairman one whose patriotism has led him to devote years of patient study to the currency and banking problems of this and other countries; one who was able to free himself from currency fallacies, from class prejudices, and from partisan interests, and to take a broad, national view of this subject, so that every interest would be safeguarded. Congress may feel proud that it has such a man in its membership, and the country at large may feel grateful that this man possessed the rare courage and perseverance to bravely face popular prejudice until his solution of the problem commanded favorable consideration by thoughtful men in every section of the country.

I need not go into the merits of the Fowler bill, because you are all familiar with it. As to the basic principle of its currency feature, which is that a "bank-note credit" is identical in principle with a "bank-book credit" and should be protected by exactly the same reserve, I have yet to hear the first rational objection. As to the other feature of the bill, you are doubtless aware that opinions are still divided. To avoid any misunderstanding, I would say that the organization I have the honor to represent, although heartily indorsing the currency feature of the Fowler bill, neither favored nor condemned at the time the remaining features. As for myself, I feel free to say that after considering every adverse criticism which has been



brought to my notice, I am more and more firmly convinced that the Fowler bill, substantially in its entirety, would, in actual practice, prove a sound, scientific, and permanent solution of our currency problem, and would be absolutely equitable to all interests.

Some time ago I had the privilege of reading an adverse criticism upon the Fowler bill by a distinguished member of your committee, and I smiled when I read it. But it was not a smile of derision, but a smile of fellow-sympathy, for when I first read the bill I also thought it was too radical and revolutionary. Then I began to analyze it and asked myself the question: Is it too radical for Americans to abandon a bond-secured currency system when they know that its volume bears no relation to the normal demands of trade, and that it encourages speculation and creates panics, when a sound and scientific system can be substituted without disturbance and without alarm to the public?

Is it too radical for Americans to have their fiat Treasury notes retired and converted into sound gold certificates so gradually that the public would not know it?

Is it too radical for Americans to have their bank deposits guaranteed when the losses for forty years have averaged less than one-thirteenth of 1 per cent of the deposits—even under the present inefficient Federal supervision; and when such guaranty would prevent future runs upon banks, with all their collateral evils?

Is it too radical for Americans to permit national banks to exercise the functions of trust companies, when these two lines of financial business are now being successfully operated by the same officers in many cities, and when such a combination would insure greater protection to depositors?

Is it too radical for the Government to pay its bills by check upon bank depositories, as is done by States and municipalities, when it would thereby keep the people's funds in the healthful channels of active trade?

When I reduced the apparent radical and revolutionary ideas to concrete propositions I had to smile at my former fears; and when I looked further into the bill and saw how skillfully and successfully the danger of depreciation in United States bonds was met; when I saw how effectually the prompt redemption of bank notes was assured through the payment by the Government of all expenses attached to the transmission of bank notes to their redemption agency, coupled with the desire of all national banks to exchange the notes of their competitors into lawful money as soon as possible; when I realized how certain it was that the contingent liability for loss by reason of the failure of other banks would result in a degree of supervision and unification, which would make wild-cat banking and failure a rarity in the future; and when I comprehended how coordinated each feature in the bill was to the others, I felt assured that it would be only a question of time when nearly every one who shared the apprehension that the Fowler bill is too radical would be among its most earnest champions, because the more thoroughly the measure is rationally criticised the more perfect and scientific does it appear as a whole.

Should the House and the Senate agree at this time upon the Fowler bill I have not the slightest doubt that the country at large would be prepared to accept it—just as they accepted the resump-

tion of specie payments and the adoption of the single gold standard. But I fully appreciate the improbability of such an agreement being reached at this time, and if this be the case, would it not be wise to refer the entire subject to a competent commission to report at a reasonably early date, rather than to adopt any hasty or ill-advised patchwork or makeshift, such as has been referred to your committee, and whose adoption would not only be followed by serious financial consequences, but would also delay the enactment of a sound and comprehensive measure?

These are the reasons and conditions which led to the unanimous adoption of the following resolutions:

*Resolved by the Trades League of Philadelphia*, That while certain amendments to the Aldrich bill have eliminated some of its dangerous features, other amendments have been introduced which make it still more objectionable, and the bill is inimical to the interests of the country at large because it encourages the investment of banking funds in fixed instead of liquid securities, and because it gives further indorsement to our faulty system of bond-secured currency and provides for its extension.

*Resolved*, That we heartily renew our indorsement of the plan of national-bank notes, secured by the assets of the banks and based upon the same reserve which is now required against deposits, as formulated in the Fowler bill, and respectfully recommend to the House Committee on Banking and Currency that the Aldrich bill be amended by the substitution of the Fowler bill, in order that all its details may be fully debated in the House for the educational benefit of the country at large.

*Resolved*, That in view of the improbability of Congress agreeing at this time upon any financial measure which would prove satisfactory to all interests, we recommend the appointment of a joint commission to consist of all the members of the Finance Committee of the Senate and the Banking and Currency Committee of the House, to which commission should be referred the Fowler bill, together with all other currency measures, and which commission should present prior to January 1, 1909, a comprehensive, scientific, and permanent banking and currency measure which will be equitable to the varied interests of this country.

[SEAL.]

M. N. KLINE, *President*.
N. B. KELLY, *Secretary*.

END OF TITLE